



TREASURER-TAX COLLECTOR

DAN McALLISTER
Treasurer-Tax Collector

COUNTY ADMINISTRATION CENTER • 1600 PACIFIC HIGHWAY, ROOM 112
SAN DIEGO, CALIFORNIA 92101-2475 • (619) 531-5225 FAX (619) 595-4605

website: <http://www.sdtreastax.com>

SAN DIEGO COUNTY TREASURER'S POOLED MONEY FUND INVESTMENT POLICY January 2, 2004

The attached Investment Policy and practices of the Treasurer are based on prudent money management principles and California State law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body. Section 53601.7 provides permissive authority to adopt policy to manage funds much like a money market fund. This Section will not be implemented for the Pooled Money Fund. The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds the objectives of this office shall be:

1. The primary objective shall be to safeguard the principal of the funds under the Treasurer's control.
2. The secondary objective shall be to meet the liquidity needs of the participants.
3. The third objective shall be to achieve an investment return on the funds under control of the Treasurer within the parameters of prudent risk management.

The monies entrusted to the County Treasurer (the Fund) will comprise an actively managed portfolio. By this it is meant that the Treasurer and his staff will observe, review, and react to changing conditions that affect the Fund; this shall be viewed as a full time responsibility by the Treasurer and his staff. The authority to execute investment transactions that will affect the Fund will be limited to:

Treasurer
Deputy Treasurer
Chief Investment Officer
Investment Officers

The Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

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2004 SAN DIEGO COUNTY TREASURER'S POOLED MONEY FUND INVESTMENT POLICY

The purpose of the Treasurer's Policy is to implement the legislated parameters of the investment authority of the Treasurer's Pooled Money Fund (the "Fund"). As an elected official of the County of San Diego, the Treasurer must manage public monies in a way that is consistent with investment oversight, and sound investment practices. To have a policy which only concerns itself with maximizing return is a very dangerous course. The basic concept of investment return is based on a risk/reward relationship. Therefore, the higher the return, the higher the risk. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Pool depositors and the public have confidence that public monies are secure. The Policy stated below will concern itself with risk management.

1. SECURITY OF PRINCIPAL POLICY - The Policy issues directed to protecting the principal entrusted to this office are:
 - A. Limiting the Fund's exposure to each type of security.
 - B. Limiting the Fund's exposure to each issue and issuer of debt.
 - C. Determining the minimum credit requirement for each type of security.
2. LIQUIDITY POLICY - The Policy issues directed to provide necessary liquidity to the participants are:
 - A. Limiting the length of maturity for securities in the Portfolio.
 - B. Limiting the Fund's exposure to illiquid securities.
3. RETURN POLICY - The Policy issues directed to achieving a return are:
 - A. Attaining a market rate of return taking into account the investment risk constraints and liquidity needs.
 - B. Return is of least importance compared to the safety and liquidity policies described above.
 - C. A majority of the investments shall be limited to low risk securities in anticipation of earning a fair return relative to the risk being taken.

4. MATURITY POLICY

A. The maximum maturity allowed by the California Government Code is 5 years with shorter limitations specified for certain types of securities. As depicted in the following table, the goal for the maturity structure of the Portfolio shall be to have 50% of the Portfolio in short term instruments of 1 year or less with the remainder spread over 1-5 years on the yield curve depending on opportunities in the marketplace. The maturity table below will be used to ensure that maturities are spread over the yield curve and not concentrated in any one year.

- 50% under 1 year
 - 25% Overnight to 90 days
 - 25% 91 days to 1 year
- 50% 1-5 years
- 1.50 years Effective Duration

B. The Portfolio will be considered in compliance with the Maturity Policy if it meets the maturity targets above at the time of purchase. In the event a change in the size of the Portfolio causes the targets to be exceeded, the Investment Group will review the Portfolio and Cash Flows to determine if the Portfolio should be repositioned to return below the targets. Until such time as the Portfolio is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Portfolio, until such time as the Portfolio is once again within the targets. In the event the Portfolio exceeds the maturity targets, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting to the Oversight Committee.

5. PROHIBITED SECURITIES.

A. The California Government Code does not authorize a local agency to invest in any of the following derivative notes:

1. Inverse Floater
2. Range Notes
3. Interest-only strips derived from a pool of mortgages
4. Any security that could result in zero interest accrual

6. CREDIT RATING POLICY

- A. The Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the Policy limits.
- B. The monitoring of credit ratings consists of the following procedures:
 - (1) When a credit rating downgrade occurs, the Investment Group will evaluate the downgrade on a case-by-case situation to determine whether to hold or sell the security after further analysis of the credit rating on an ongoing basis.
 - (2) In the event a security in the Pool receives a credit rating downgrade, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.
 - (3) The Investment Group shall meet quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

7. INTERNAL CONTROLS

- A. The Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:
 - (1) The cost of a control should not exceed the benefits likely to be derived; and
 - (2) The valuation of costs and benefits requires estimates and judgments by management.
- B. Accordingly, the Deputy Treasurer shall establish internal controls that shall address the following points:
 - (1) Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
 - (2) Separation of Transaction Authority from Accounting and Record Keeping - By separating the person who authorizes or performs the

transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

- (3) Custodial Safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- (4) Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.
- (5) Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- (6) Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person.
- (7) Development of a Wire Transfer Agreement with the Lead Bank or Third Party Custodian - This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

C. Provide for an annual independent review by an external auditor to assure compliance with policies and procedures.

8. PERMISSIBLE INVESTMENTS - Government Codes 53601, 53601.1, 53601.2, 53635, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in paragraphs 9-21 below.

9. GOVERNMENT OBLIGATIONS - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies, and government sponsored enterprises. Agencies are not the direct obligation of the Treasury but involve federal sponsorship or guarantees.
- A. Maximum Maturity - The maximum maturity of an issue shall be the current 5-year issue or an issue, which, at the time of the investment, has a term remaining to maturity not in excess of 5 years.
 - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category is unlimited.
 - C. Maximum Exposure Per Issue - The maximum exposure to the Portfolio of a single issue shall be 5% of the Portfolio value.
 - D. Maximum Exposure Per Issuer - The maximum exposure to the Portfolio for an individual issuer shall be:
 - (1) Treasury - Unlimited, Treasury securities are the safest haven for investments in the world.
 - (2) Agency - No more than 25% of the Portfolio value shall be invested in any single issuer.
 - E. Minimum Credit Requirement - None; U.S. Treasury and Agency securities are the highest credit in the world.
 - F. Liquidity Category - Highly liquid
10. LOCAL AGENCY OBLIGATIONS - Bonds, notes, warrants or other evidences of indebtedness of any local agency or by a department, board or authority of any local agency within this State.
- A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.
 - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 15%.
 - C. Maximum Exposure Per Issue - The maximum exposure to the Portfolio of a single issue shall be 5% of the Portfolio value.
 - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Portfolio value.

- E. Minimum Credit Requirement - Issuers outside of the County must be at or above the following investment grade from one of these ratings firms:
 - (1) Standard & Poor's – SP-1+(AAA when applicable)
 - (2) Fitch - F1 (AAA when applicable)
 - (3) Moody's - MIG 1 (Aaa when applicable)

(For 1 year or less, use short-term rating.)
(For over 1 year, use long-term ratings.)
 - F. Liquidity Category - Somewhat liquid
11. BANKER'S ACCEPTANCE - This is a draft or bill of exchange, accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the banker's acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust receipts, and other documents evidencing ownership and insurance of the goods financed. Since its inception in 1914, there has been no known loss of principal to investors through the use of Banker's Acceptances.
- A. Maximum Maturity - the maximum maturity of an issue shall be 180 days.
 - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 40%.
 - C. Maximum Exposure Per Issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
 - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
 - E. Minimum Credit Requirement – The security must be at or above the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
 - (1) Standard & Poor's - A1
 - (2) Moody's - P1
 - (3) Fitch - F1
 - F. Liquidity Category – Liquid

12. **COMMERCIAL PAPER** - These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement.
- A. **Maximum Maturity** - The maximum maturity of an issue shall be 270 days.
 - B. **Maximum Exposure of Portfolio** - The maximum exposure to the Portfolio for this category shall be 40%.
 - C. **Maximum Exposure Per Issue** - The maximum exposure to a single issue shall be 2.5% of the Portfolio for maturities greater than 5 days, 10% of the Portfolio value for paper maturing in 5 days or less.
 - D. **Maximum Exposure Per Issuer** - The maximum exposure to a single issuer shall be 5% of the Portfolio when the dollar weighted average maturity is greater than 5 days, 10% of the Portfolio when the dollar weighted average maturity is 5 days or less.
 - E. **Minimum Credit Requirements** – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
 - (1) Standard & Poor's - A1 (A when applicable)
 - (2) Moody's - P1 (A when applicable)
 - (3) Fitch - F1 (A when applicable)
 - F. **Liquidity Category** - Liquid
13. **MEDIUM-TERM NOTES** - These are Corporate Notes, Deposit Notes, and Bank Notes sold by an agent in the open market on a continually offered basis. Issuers include well recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium term notes are debt obligations generally unsecured, although some issues come to market on a collateralized or secured basis.
- A. **Maximum Maturity** - The maximum maturity of an issue shall be 5 years.
 - B. **Maximum Exposure of Portfolio** - The maximum exposure to the Portfolio for this category shall be 30%.
 - C. **Maximum Exposure Per Issue** - the maximum exposure to a single issue shall be 2.5% of the Portfolio value.

- D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
 - E. Minimum Credit Requirements – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
 - (1) Standard & Poor's –A-1 or AAA
 - (2) Moody's –P-1 or Aaa
 - (3) Fitch –F-1 or AAA

(MTN's 1 year or less, use short-term rating.)
(For MTN's over 1 year, use long-term rating.)
 - F. Liquidity Category - Liquid
14. NEGOTIABLE CERTIFICATES OF DEPOSIT - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time and earn specified or variable rates of interest. Negotiable certificates of deposit (NCD) differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.
- A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.
 - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 30%.
 - C. Maximum Exposure Per Issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
 - D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.
 - E. Minimum Credit Requirement – The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.
 - (1) Standard & Poor's - A-1 or AAA
 - (2) Moody's - P-1 or Aaa
 - (3) Fitch - F-1 or AAA

(For NCD's 1 year or less, use short-term rating.)
(For NCD's over 1 year, use long-term rating.)

- F. Liquidity Category - Liquid
15. REPURCHASE AGREEMENT - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e. The County Fund), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.
- A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.
 - B. Maximum Exposure of Portfolio - The maximum exposure to the Portfolio for this category shall be 40%.
 - C. Maximum Exposure Per Issue - The maximum exposure to a single RP issue shall be 10% of the Portfolio value for RP's with maturities greater than 5 days, 15% of the Portfolio for RP's maturing in 5 days or less.
 - D. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer of RP shall be 10% of the Portfolio when the dollar weighted average maturity is greater than 6 days, 15% of the Portfolio when the dollar weighted average maturity is 6 days or less.
 - E. Eligible Broker/Dealers – Broker/Dealers shall be primary dealers of the Federal Reserve Bank of New York. Issuers must sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.
 - F. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be a security authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing 6 days to 1 year shall be Treasuries and Government Agencies.
 - G. Delivery of Collateral – Broker/Dealers shall deliver the underlying securities to either the County's safekeeping bank or a mutually agreed upon third party custodian bank. When a third party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the County Fund in accordance with the terms of the repurchase agreement.

16. REVERSE REPURCHASE AGREEMENT - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the County Fund is the seller of securities and the broker or bank is the investor. Due to the nature of RRP, the policy regarding this instrument is different from the above RP policy.
- A. Maximum Maturity - The maximum maturity of a reverse repurchase agreement shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.
 - B. Maximum Exposure of Portfolio - No more than 20% of the Portfolio shall be invested in RRP and/or securities lending at any one time.
 - C. Maximum Exposure Per Issue - The maximum exposure to a single RRP issue shall be 5% of the Portfolio value.
 - D. Maximum Exposure Per Broker/Dealer - No more than 10% of the Portfolio shall be invested in RRP with any one broker/dealer at any one time.
 - E. Purpose of RRP - The uses of RRP shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.
 - F. Eligible Securities - A RRP may only be entered into with a security, authorized in California Government Code 53601, that has been owned and paid for 30 days prior to the settlement of the RRP.
 - G. Eligible Broker/Dealer – Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.
17. COLLATERALIZED CERTIFICATES OF DEPOSIT - This is the deposit of funds made by the County Treasurer in state or national banks or state or federal savings and loan associations or federal credit unions or FDIC insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:
- A. The deposit may not exceed the total of the paid-up capital and surplus of a depository.
 - B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the Treasurer's deposits. These securities will be placed in the institution's pooled collateral account and

monitored by the State Treasurer of California or a mutually agreed upon third party custodian bank.

- C. The Treasurer will waive the first \$100,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government.
- D. The Treasurer will select depositories from those agreeing to pay the highest available rate of interest. In the event that the highest available interest rate is offered to the County by more than one depository, the following criteria will be applied to determine which one will receive County deposits:
 - (1) If the deposit is a renewal of an already existing deposit it will be extended with the same institution.
 - (2) If the funds available are insufficient to match the request of banks and savings and loan associations, the Treasurer will distribute a fair share of the available funds to the institutions on the basis of the ratio of their total deposits to deposits within San Diego County.
 - (3) When two institutions offer the same rate of interest, the Treasurer will give consideration to the institution that has the best performance in making home mortgage loans within the low and moderate income areas of the County.
 - (4) Each institution which receives County deposits must provide the Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement and EEO-1 Form.
 - (5) Maximum maturity shall be 1 year.
 - (6) Maximum exposure to the Portfolio for collateralized certificates of Deposit shall be 10%.
 - (7) Institutions at or above the following investment grade, as determined by the respective rating firms, may pledge mortgage based collateral for County deposits:
 - (a) Fitch - F1
 - (b) Moody's - P1
 - (c) Standard & Poor's - A1
 - (8) Liquidity Category – Illiquid

18. COVERED CALL OPTION/PUT OPTION - An option is the right to buy or sell a specific security within a specific time period at a specific price.
- A. A covered call is when the Treasurer sells the option to another party, giving them the right to buy an existing security in the Portfolio at a specific price within a specific time period.
 - B. A put option is when the Treasurer sells the option to another party, giving them the right to sell to the Treasurer a security at a specific price within a specific time period.
 - C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.
 - D. The Treasurer will act only as a seller of covered call and put options with the following exception: Treasurer may buy an option to offset an existing open option position.
 - E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.
 - F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.
 - G. Maximum maturity - The maximum maturity of a covered call option/put option shall be 90 days.
 - H. Maximum exposure - No more than 10% of the Portfolio may have options written against it at any given time.
 - I. Credit risk - Options shall only be written with primary dealers.
19. MONEY MARKET MUTUAL FUND - Shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified Portfolio of securities which are redeemable at their net asset value. The Government Code allows for purchases of mutual funds, but the County Fund will limit use to money market mutual funds managed to maintain a \$1.00 share price.
- A. Maximum Exposure - The maximum exposure to the Portfolio for this category shall be 15%.
 - B. Purchase price - The purchase price of the mutual fund shall not include any commission.

- C. Maximum exposure per fund - The maximum exposure to a single mutual fund shall be 10% of the Portfolio value.
 - D. Minimum credit requirement - Mutual funds must have the following investment grade from at least one of these rating firms and retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of Five Hundred Million Dollars:
 - (1) Standard & Poor's - AA Af
 - (2) Moody's - Aaa F
 - (3) Fitch - Aaa F
 - E. Liquidity Category - Liquid
20. LOCAL AGENCY INVESTMENT FUND STATE OF CALIFORNIA (LAIF) - The Local Agency Investment Fund (LAIF), a voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts. The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1953 and has oversight provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.
- A. Maximum Exposure – The maximum exposure to the Portfolio for this category shall be 10%, subject to limitations placed upon deposits by LAIF.
 - B. Liquidity Category - Liquid
21. PASS-THROUGH SECURITIES - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.
- A. Maximum maturity - The maximum maturity of an issue shall be 5 years.
 - B. Maximum Exposure - The maximum exposure to the Portfolio for this category shall be 20%.
 - C. Maximum exposure per issue - The maximum exposure to a single issue shall be 2.5% of the Portfolio value.
 - D. Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the Portfolio value.

E. Minimum credit requirement issuer – Issuers, if rated, must have the following investment grade from one of these rating firms:

- (1) Fitch –A
- (2) Moody's –A
- (3) Standard & Poor's –A

F. Minimum credit requirement security - The security must have the following investment grade from one of these rating firms. If unrated by Standard & Poor's, security would need to be authorized by Standard & Poor's with a shadow rating prior to purchase.

- (1) Standard & Poor's –A-1 or AAA
- (2) Moody's –P-1 or Aaa
- (3) Fitch –F-1 or AAA

(For 1 year or less, use short-term rating.)

(For over 1 year, use long-term rating.)

G. Liquidity Category - Liquid

- 22. WHEN-ISSUED SECURITIES - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.
- 23. ILLIQUIDITY LIMITATIONS - The Fund may not invest more than 20% of the total Portfolio in securities, which are illiquid or somewhat liquid.
- 24. MAXIMUM EXPOSURE FOR ANY ONE ISSUER - If a single issuer is involved in more than one of the above listed investment categories, the exposure to the issuer is limited to 5% of the Portfolio value per category and the maximum aggregate total exposure to a single issuer shall not exceed 10% of the Portfolio value. The aforementioned does not apply to repurchase agreements. The limits for repurchase agreements are set forth in the Treasurer's Policy in Paragraph 15.

25. CRITERIA FOR SELECTING BROKERS AND DEALERS - In order to eliminate risk in making investments under this Policy, all investments will be made only through qualified dealers.
- A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial paper issuers may be considered qualified dealers for direct issuance of their commercial paper.
 - B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application and qualify for recommendations by the Investment Committee to the County Treasurer.
 - C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.
 - D. Investment securities dealers for Repurchase and Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.
 - E. The dealer is required to have a net capital in excess of \$10 million with liquidity lines of \$50 million or more.
 - F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.
 - G. The dealer will be monitored by the Investment Committee to ensure the services the County requires are delivered in a timely and efficient manner.
 - H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.
 - I. A qualified dealer must not have made any political contributions to the Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, the contributions shall not be in excess of \$250 to each official per election.

26. SECURITIES LENDING - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRP's and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice. The Fund is indemnified against any loss on the loans and the reinvestment of collateral by the agent.
- A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days.
 - B. Maximum Exposure of Portfolio - No more than 20% of the Portfolio shall be exposed to securities lending and/or RRP's at any one time.
 - C. Maximum Exposure Per Loan - The maximum exposure per loan shall be 5% of the total Portfolio.
 - D. Maximum Exposure Per Counterparty - No more than 10% of the Portfolio shall be on loan with any single counterparty at any one time.
 - E. Reinvestment shall be limited to Government Code and the County's authorized investment list.
27. DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER - The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer for a one year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.
28. SAFEKEEPING AUTHORITY - The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.
29. COUNTY TREASURY OVERSIGHT COMMITTEE - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the

County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.

30. RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:

A. The County Treasury Oversight Committee:

- (1) Gifts and Gratuity limits: Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the Treasurer conducts business.
- (2) Honorarium limit - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business.
- (3) Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the local treasurer or a candidate for a legislative body of the local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.
- (4) Contributions - A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

B. The County Treasurer and Designated Employees

- (1) Gifts and Gratuity limits - The Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Pool.
- (2) Honorarium limits - The Treasurer and designated employees may not accept any honorarium.
- (3) Form 700 "Statement of Economic Interests" - The Treasurer and

designated employees are required to file a 700 form annually.

31. REPORTING - The Treasurer shall prepare an investment report monthly.

A. The report will be provided to the following officials:

- (1) Board of Supervisors
- (2) Oversight Committee
- (3) Chief Administration Officer
- (4) Auditor & Controller
- (5) Pool Participants
- (6) Annual filing

B. The report will include the following:

- (1) A summary of Pool Portfolio Statistics
- (2) The type of investment, issuer, date of maturity, par, and dollar amount invested on all securities, investments and moneys held by the Pooled Money Fund; and shall additionally include a description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program. The report shall also include a current market value and the source of the valuation as of the date of the report for all securities held by the Pooled Money Fund .
- (3) Securities Lending Portfolio
- (4) Pool Purchases, Sales and Maturities
- (5) Pooled Money Fund Cash Flow Forecast
- (6) Included in the monthly report shall be a statement of compliance with the Investment Policy and a statement of the Pool's ability to meet cash flow requirements for the next six months.

32. ANNUAL AUDIT - The Treasury Oversight Committee shall cause an audit to be conducted annually on a fiscal year basis to determine if the County Treasury is in compliance with Section 27130-27137 of the California Government Code.

33. COST AND EARNINGS APPORTIONMENT

- A. Prior to quarterly interest distribution, actual investment costs incurred by the Treasurer will be deducted from the interest earnings of the pool. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies), and indirect costs (department overhead and external overhead).
- B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Pool each quarter.
- C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the apportionment rate for the quarter or the overnight Repo rate the Pool invests in.
- D. The apportionment rate is set approximately two weeks after each calendar quarter end. The amount of each apportionment is dependent upon the actual cash earnings received. The earnings are usually credited in two increments, with the first distribution occurring during the second month after each quarter. The second distribution is made the following month, which is the last month of the new quarter. The incremental amounts that can be distributed are based on the balance in the Treasurer's apportionment fund. Generally, 60% or more of the quarterly earnings will be distributed during the first increment, and the balance will be distributed in the second increment. Apportionments are not paid out by warrants; all earnings are credited to the participants' fund balance.

34. TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS – The State of California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.

- A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy is structured to help to ensure that, pursuant to Section 27133 of the

California Government Code, the Treasurer shall be able to find that all proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the County Treasury Pool.

B. The policy for the acceptance of local agency deposits is:

- (1) The Pool will accept deposits from local agencies based on the Pool's maturity/cash flow needs. A local agency must call the Treasurer's office to negotiate with the Treasurer or one of his staff, who is authorized to execute investment transactions, prior to making a deposit. The local agency and the Treasurer's office must agree on the maturity date of the deposit (how long the funds will be in the Pool). For withdrawal see Item #35 "Criteria For Withdrawal of Funds From the County Pool by Voluntary Participants."
- (2) The local agency must sign the Voluntary Deposit Agreement. Attached heretofore is Exhibit A(3) The Fund will allow a maximum of 25% of the total Pooled Money Fund in voluntary deposits.
- (3) The maximum amount of transactions per month shall be 10 per local agency.

C. Before any deposits for new accounts from non-participating Voluntaries can be accepted by the County Treasurer, the local agency must perform the following:

- (1) Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:
 - (a) be signed by an authorized official
 - (b) indicate the resolution number and date passed by the Board or governing body,
 - (c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Pool,
 - (d) bear the seal of the local agency, if the local agency has a seal.

- (2) Provide wire/ACH transfer instructions for cash withdrawals from the Pool. All withdrawals and external deposits will be by the Fed Wire or Automated Clearing House (ACH).
- (3) Establish a trust through the County Auditor and Controller's General Accounting Division.

35. CRITERIA FOR WITHDRAWAL OF FUNDS FROM THE COUNTY POOL BY VOLUNTARY PARTICIPANTS

- A. Before a local agency withdraws funds from the Pool for the purpose of non-investment reasons, it must submit a withdrawal request form a minimum of 5 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the treasurer if the withdrawal does not cause the maturity status of the Pool to exceed its limits, or jeopardize its ability to meet cash flow requirements.
- B. Before a local agency withdraws funds from the Pool for investment purposes, it must submit a withdrawal request form a minimum of 30 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the treasurer if the withdrawal does not cause the maturity status of the Pool to exceed its limits, or jeopardize its ability to meet cash flow requirements.
- C. If the funds remain in the Pool until the specified maturity date, if requested, the funds will be released back to the local agency on the said maturity date.
- D. For all of the above, if the funds are requested prior to the original agreed upon maturity date, the County Treasurer must find that the withdrawal does not cause the maturity status of the Pool to exceed its limits, nor jeopardize the ability of the Pool to meet its cash flow requirements for the next three months; and that the proposed withdrawal will not adversely affect the interests of all other depositors in the Pool.

36. GRANDFATHERED AGENCIES

- A. The grandfathered agencies, including the Community Colleges, who use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function 100% in this manner and will be treated as a mandatory participant (this assumes that the agency shall continue to make their deposits into the Pool).

- B. They can also opt to be treated as a voluntary participant and elect to withdraw funds in the same fashion as the other voluntary participants. However, any agency so opting shall be subject to all of the restrictions placed upon the other voluntary participants.

GLOSSARY OF TERMS

BANKERS ACCEPTANCE - Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a bankers acceptance is merely a check, drawn on bank by an importer or exporter of goods.

COLLATERALIZED CERTIFICATE OF DEPOSIT - An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

COMMERCIAL PAPER - Money Market instrument representing a short-term promissory note of a large corporation at a specified rate of return for a specified period of time.

COVERED CALL OPTION - The sale of an option to another party giving them the right to buy an existing security in the Treasurer's Pool at a specified price within a specified time period.

DOLLAR WEIGHTED AVERAGE MATURITY - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION - Is a measure of the price volatility of the Portfolio and reflects an estimate of the projected increase or decrease in the value of the Portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT - Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

EFFECTIVE DURATION or OPTION-ADJUSTED DURATION - Is the approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve allowing for the cash flow to change as a result of the change in yield.

GOVERNMENT OBLIGATIONS - Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees. Agency issuers include:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Agriculture Mortgage Corporation (FAMCA)
Federal Home Loan Mortgage Corporation (FHLMC)
Government National Mortgage Corporation (GNMA)
Student Loan Marketing Association (SLMA)
World Bank

GRANDFATHERED AGENCIES - Such as community colleges and some fire districts that use the County's banking and accounting services.

HIGHLY LIQUID - The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID - A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INVESTMENT GROUP - Shall be made up of the Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

LIQUID - A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY OBLIGATION - An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM - The term used to describe a security when the maturity is greater than one year.

MEDIUM TERM NOTES - They are Corporate Notes and Deposit Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND - A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

NEGOTIABLE CERTIFICATE OF DEPOSIT - A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

PASS-THROUGH SECURITIES - A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

PORTFOLIO VALUE - The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

PRUDENT RISK - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

PUT OPTION - The sale of an option to another party giving them the right to sell to the Treasurer's Pool a security at a specified price within a specified time period.

REPURCHASE AGREEMENT - A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e. The County Fund), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

REVERSE REPURCHASE AGREEMENT - The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

SAFEKEEPING - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES LENDING - A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SHORT-TERM - The term used to describe a security when the maturity is one year or less.

SOMEWHAT LIQUID - A security that is at a lesser degree of ease to buy or sell because there is a smaller secondary market of buyers and sellers willing to trade the security.

VOLUNTARY PARTICIPANTS - Local agencies that are not required to deposit their funds with the County Treasurer.

WHEN-ISSUED SECURITIES - A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

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TREASURER-TAX COLLECTOR

DAN McALLISTER
TREASURER-TAX COLLECTOR

COUNTY ADMINISTRATION CENTER • 1600 PACIFIC HIGHWAY, ROOM 112
SAN DIEGO, CALIFORNIA 92101-2475 • (619) 531-5225 FAX (619) 595-4605

website: <http://www.sdtreastax.com>

VOLUNTARY DEPOSIT AGREEMENT

January 2, 2004

Entity Name

Address

Address

Address

Amount of deposit: \$ _____

Date of Deposit: _____

Maturity Date: _____

Per Section 34 and 35 of the Pooled Money Fund Investment Policy, the undersigned agrees to abide by the rules and regulations within.

If funds are requested prior to the original agreed upon maturity date, the County Treasurer must find that the withdrawal does not cause the maturity status of the Pool to exceed its limits, nor jeopardize the ability of the Pool to meet its cash flow requirements for the next three months, and that the proposed withdrawal will not adversely affect the interests of all other depositors in the Pool.

In the event the withdrawal affects the liquidity of the Pool, the amount will remain on deposit until the original agreed upon maturity date.

Authorized Signature

Attachment A